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SENSITIVE

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SUBJECT: SERRA'S HONEYMOON CUT SHORT

11. (U) SUMMARY. Jose Serra of the Brazilian Social Democratic Party (PSDB) was inaugurated as Mayor of Sao Paulo on January 1, in a ceremony that took on the tone of a PSDB political festival. Virtually all the stars of the Sao Paulo wing of the PSDB party, including former President Fernando Henrique Cardoso, were in attendance. The party was cut short, however, as the newly inaugurated Sao Paulo city council handed Serra his first defeat the same afternoon, when his choice for city council president was defeated by a PSDB dissident with the support of the Workers Party (PT) and other opposition parties. End Summary.

12. (U) Jose Serra, who defeated outgoing PT Mayor Martha Suplicy in the October 31 municipal run-off election, took office January 1 in a two-stage inaugural ceremony. He was officially sworn in at the City Council chambers, along with the 55 city council members; the formal, public ceremony took place immediately afterwards at City Hall. Breaking normal protocol, Serra gave a short speech at the city council ceremony, stressing the need for the executive and legislative branches of the city government to work together in the public interest and the priority his administration would place on ethical behavior. His remarks reportedly were greeted with enthusiastic applause by council members from allied parties and stony silence from the opposition.

13. (U) The Sao Paulo PSDB leadership was out in force at the public inaugural ceremony at City Hall. Many were recognized from the podium, giving the event an air of a PSDB homecoming celebration (though the PSDB has never before governed Sao Paulo city). In addition to former President Fernando Henrique Cardoso, Sao Paulo Governor Geraldo Alckmin, several members of the Sao Paulo Congressional delegation and several members of President Cardoso's cabinet, including former Foreign Minister Celso Lafer, Education Minister Paulo Renato Souza and Social Communications Minister Andrea Matarazzo, were in attendance. Former President Cardoso was enthusiastically cheered by the partisan audience. The PFL also sent several of its local stars, including Vice Governor Claudio Lembo, the president of the Sao Paulo PFL. Serra's vice mayor is PFL Federal Deputy Gilberto Kassab. Justice Minister Marcio Thomas Bastos represented the Lula administration.

14. (U) A number of local PSDB stars also found a home in Serra's cabinet, which was sworn in at the same ceremony, and among his senior subcabinet level advisors. PSDB Federal Deputies Walter Feldman and Aloysio Nunes Ferreira were named to the key positions of Coordinator for Regional Deputy Mayors and Secretary for Government, respectively. Three former Cardoso Cabinet Ministers were named to senior advisory positions. Andrea Matarazzo will oversee the continued revitalization of Sao Paulo's historic center as regional deputy mayor for the downtown region; former Minister of Justice and National Human Rights Secretary Jose Gregori will head the municipal Commission on Human Rights, and former Sports Minister Caio Luiz de Carvalho will head Sao Paulo's tourist and convention bureau. Two key municipal cabinet slots -- Housing and Education -- went to Vice Mayor Kassab's PFL. The Popular Socialist Party (PPS) and Green Party (PV), which supported Serra in the second round of the election, each got one seat. Environment Secretary Eduardo Jorge (PV) served as Health Secretary

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during the first two years of the Suplicy administration. Retired diplomat Helena Maria Gasparian was named as International Relations Secretary, a position Serra had initially said he would abolish. Serra's 20 member cabinet includes three women and one Afro-Brazilian.

15. (U) Within hours of his inauguration, Serra was faced with the first political crisis of his administration when the city council rejected his preferred candidate for city council president. By a razor thin margin -- 28 to 26 -- the council elected PSDB maverick Roberto Tripoli over the PSDB's own nominee, Ricardo Montoro. In last minute maneuvering, Tripoli garnered support for his candidacy from the PT caucus along with that of the loose coalition of

council members from the PMDB, PP, PTB and PL parties that calls itself the Centrao, or Big Center. Tripoli, who reportedly was passed over for a cabinet seat or as government leader, insisted that he agreed to stand for election only after being told by opposition members that Montoro could not attract enough opposition votes to win the election. (NOTE. The PSDB and the PT each have 13 seats on the council. In addition to the PSDB, Serra's governing coalition includes the PFL and 5 smaller parties with a total of 10 additional seats. The 18 members of the Centrao thus are well positioned to act as power brokers on key issues; four Centrao members broke ranks to support Serra's candidate. END NOTE.) The outraged PSDB caucus has demanded Tripoli's expulsion from the PSDB. According to press reports, Tripoli is expected to join the Green Party, which is allied with the PSDB in the governing coalition. The Sao Paulo city council controls the fourth largest public budget in Brazil, after the federal government and the states of Sao Paulo and Minas Gerais.

16. (U) While Serra's team has downplayed the significance of Montoro's defeat at the hands of Tripoli and the opposition, publicly observing only that the legislature is an independent branch of government, the press has highlighted it as a major defeat for the new administration. The story trumped coverage of the inauguration itself; the front page headline in major daily Estado de Sao Paulo on January 2 was, "Serra Begins with Defeat." Press reports have focused on the city council election result as an indication of fissures within the local PSDB party, which could complicate Serra's relationship with the City Council and the effectiveness of his administration. This is the first time since the start of Mayor Luiza Erundina's term in 1987 that the City Council has not ratified the incoming mayor's choice as council president; Luiza Erundina (then-PT) had a notoriously stormy relationship with the city council.

17. (U) In one of his first official acts, Serra ordered the suspension of all procurement actions initiated by the Suplicy government, and a review of all on-going service contracts signed by her government. Serra indicated that this was an austerity move, intended to bring municipal expenditures into line with resources.

18. (SBU) COMMENT. The turn out of the PSDB party glitterati at Serra's inauguration, and the presence of a number of nationally prominent PSDB and PFL figures among Serra's senior advisors suggests that the Sao Paulo wing of the PSDB sees Serra's win in Sao Paulo as both partial vindication for his and the party's loss to Lula in 2002 and as an important step in reestablishing the party as the principal alternative to the PT nationally. With control of the state and city governments and a PSDB president in the state assembly, the party also will likely use Sao Paulo as a launching pad for its 2006 national campaign. While Governor Alckmin continues to publicly demur about his own plans for a presidential run, others in the party are far less discrete, and the Governor is clearly enjoying being the object of speculation. The city council's rejection of Serra's candidate for council president put a damper on the PSDB festivities. While it could prove to be momentary and localized set-back, it could also prove to be an early warning sign that the Sao Paulo wing of the party needs to ensure its own house is in order before setting out on the national campaign trail. END COMMENT.

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